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° 18 November 1980

MEMORANDUM

SUBJECT: West European Aid to Poland - Political Considerations

Summary

The West Europeans have been cautious in responding positively to the Polish requests because of the inherent problems in coming up with the necessary finance and to avoid seeming provocative to Moscow. They are cautious also because they do not know how long Kania will last. Preliminary indications are that the Europeans want close cooperation among the creditors and with the United States, while avoiding the appearance--and the fact--of multilateral rescheduling. United States participation in assistance to Poland is seen as necessary, especially when the time comes to go beyond the question of rescheduling existing debt to the large sums that will be needed to have real economic impact. The Europeans are politically disposed to be sympathetic to the Polish requests, but economic stringencies and other priorities will make a full-scale effort difficult. In any case, the Europeans will be favorably influenced if the workers and regime in Poland continue to negotiate rather than resort to confrontational tactics.

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This memorandum, prepared for the Director, Office of Economic Research, was written by [] the Western Europe Division, Office of Political Analysis. It was coordinated with the Office of Economic Research and the USSR-EE Division of the Office of Political Analysis. Research was completed on 18 November 1980. Questions and comments may be addressed to the Chief, Western Europe Division []

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West European leaders and officials feel a political need (see Annex) to aid Poland financially. Assistance to Poland is not argued on the basis of any illusions that it will foster economic reform or by itself prevent forceful repression of the workers' movement. Rather, aid would buy time, and time could be an important factor in permitting the regime and workers to work out compromises acceptable to the Polish communist party and the Soviet Union. Without assistance, the Europeans believe Poland's economic situation might well degenerate into chaos leading to new widespread unrest and possibly armed intervention either by Polish or Soviet forces. Many Europeans are half convinced this will happen anyway, sooner or later, but they hope there is a chance that postponing such a denouement might also prevent it. []

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While there may be Europeans who would welcome a Soviet intervention for demonstrating that detente always was an illusion, most would not and would instead deplore the demonstration it would also furnish of European impotence. Some Europeans are convinced that Western detente policies have encouraged the workers to covet both consumer goods and political liberalization and are thus in part responsible for the tensions in Poland today. If the situation there came to be "stabilized" at a level marking significant progress towards a more open Polish society, it would be a major vindication of the West European investment in detente. []

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Poland in any case is more than a symbol of detente for the West Europeans. It is the largest, most populous, and for Moscow, the most strategically important state of its East European empire. The West Europeans cannot easily ignore either that Poland is probably the most anti-Russian of Soviet satellites. And if this makes western dealings with Poland risky from the perspective of "provoking" Moscow, it also underlines the importance of encouraging the Poles to believe they have friends in Western Europe. []

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Those Europeans who think far enough ahead--presumably, most governments--would probably conclude (indeed, may already have concluded) that Western Europe would have little choice even after a Soviet intervention but to try eventually to re-construct a "detente without illusions." But in the meantime there would be the risk that European governments would come under considerable domestic criticism for "inadequate" responses to Polish and/or Soviet repression. Moreover, the Europeans are concerned lest a breakdown of detente lead to new strains between themselves and the United States. Thus, in so far as further financial assistance is thought capable of preventing disorders that will increase the likelihood of Soviet intervention, there will be governmental support on foreign policy grounds for such aid. []

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Unfortunately, awareness of aid's role in preventing the worst in Poland is probably not a sufficient stimulus to produce it in the amounts the Poles consider adequate to ward off economic disaster. The creditors all seem unwilling to provide as much as Poland has requested. They are skeptical that Warsaw would use the money well. The coincidence of the Polish crisis with economic recession in the West makes it more difficult for the Europeans to find the money and bend the rules to render new assistance. The Poles' present indebtedness is testimony to the Europeans' past willingness to make economically questionable loans. But the need for financial stringency in Western Europe today competes strongly with the political considerations. [redacted]

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Moreover, whatever the economic trade-offs--in terms of welfare, defense, and other foreign commitments--each country will have to weigh in deciding on aid to Poland, there also are political factors that will argue for a cautious approach to Polish requests. The Europeans want more financial and economic data, but they do not believe it realistic to impose economic performance, let alone political, conditions for further financial assistance. They may nevertheless be nervous that, if aid can be said to buy time for worker-regime compromises, it could have the effect as well of emboldening worker demands and thus could enhance the risk of crisis in the dialogue. How important this concern will loom for the Europeans will depend on their reading of the relative strengths of moderates and "radicals" within the workers' movement. The Europeans probably interpret the resolution of the Solidarity charter issue as holding out the promise that the workers may be willing to moderate economic demands in return for continuing political concessions. [redacted]

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Uncertainty about what Moscow will tolerate in terms of western aid to Poland is also a matter of concern. The Europeans believe that the Soviets would be provoked more by signs of Western concertation on conditions for aid than by sizeable credits themselves. On balance, the Europeans seem to believe that Moscow--given the relative paucity of its own efforts--probably expects the west to bail out the Poles. The European governments are nevertheless aware that their assistance--especially if unconditional--could subject them to some domestic criticism over "complicity" not only with the Polish regime but also with the Soviet Union. [redacted]

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The Europeans--especially the West Germans--want the United States to play a major role in responding positively to Polish requests. In addition to reducing the financial burden on them, the Europeans will welcome American willingness to aid Poland as a token of continued United States interest in detente--and see American reluctance to assume a heavy portion of the burden possibly as a sign that Washington might not be averse to risking collapse in Poland at this time. Europe also wants to prevent Moscow from fastening on the possible benefits to

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Polish-West European relations of western assistance. Sizeable United States participation would serve as well to deflect those European critics of "complicity" from focusing only on European governments. []

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West Germany

Chancellor Schmidt wants to help Poland financially, but political support for such assistance may be weakening in the wake of new doubts about the prospects for Ostpolitik. Schmidt had approved and encouraged aid to Poland from the time he met Polish leader Gierek at Helsinki in 1975. In 1976, the German chancellor gained Bundestag approval of a sizeable payment to Warsaw in settlement of war claims. At the time, hopes for reconciliation were high and Poland had promised the release of ethnic German emigres. This summer Bonn was instrumental in helping to arrange a \$650 million loan to Poland by West German banks that was signed shortly after Gierck's fall. []

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Further aid now--either new credits or easing of terms on past debt--would have to be justified less by the hope of new achievements in Ostpolitik than as helping to salvage it, and perhaps also to forestall Soviet intervention. Important commercial and banking interests in West Germany with a substantial stake in Poland are presumably urging Bonn to approve new assistance. There is, in any case, still a perceived political need to display sympathy for the Warsaw regime--if perhaps less than under Gierek. []

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Opposition has nonetheless been growing in recent years to Schmidt's use of government-backed guarantees to advance Ostpolitik. Even at the time of Schmidt's earlier efforts, influential conservatives were arguing that Eastern Europe should be left to stew in its own juice. Such views may be more common now: not only is the economic soundness of credits to Poland more questionable, but the rapid souring of relations with East Germany has caused fresh doubts about the realism of expecting a political return for economic investments. Opposition leader Strauss was critical of the recent bank loan to Poland, holding that it should be withheld pending assurances that Polish workers would benefit. []

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The budgetary bind in West Germany, along with reviving concern about becoming the "milk cow of Europe," is of course a major constraint on meeting all the new Polish requests. Other foreign outlays, including loans for Turkey and Yugoslavia, could be better defended in the Bundestag than further investments where Ostpolitik prospects appear dubious. []

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At a minimum the Germans will want to provide further financing in smaller, if perhaps more frequent, bundles and get a response from Warsaw about how the Poles plan to repay loans, particularly those falling due in the next two years. Bonn will also want to see a large United States contribution--both to quiet conservative forces in West Germany and to dodge Soviet suspicions of too large a German role. []

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France

Paris' assessments of what lies ahead for Warsaw have vacillated between deep gloom and cautious optimism. In the immediate wake of Gierek's fall, Paris was reluctant to take up discussions of economic aid with the Poles, preferring instead to wait and see what developed. Giscard, for whom Gierek was a particularly valued interlocutor, postponed a scheduled September trip to Poland indefinitely and the Poles were advised that French Treasury aides would be unavailable until mid-October. These responses were triggered by uncertainty over Kania's leadership and persistent rumors of impending Soviet military action. [redacted]

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The French have not been indifferent to Poland's economic needs. French officials have been nervous that deteriorating economic circumstances might cause the delicate balance between workers, regime, and Moscow to fall apart. At the same time the French emphasize that the West must be discreet in consulting on aid to Poland and that, because of Soviet sensitivities, how aid is provided may be as important as the amount. The French agree that the West should "harmonize" its programs, but they want to avoid the appearance of coordination--hence French opposition to any EC declaration on Poland. [redacted]

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Giscard apparently believes that, under the circumstances, Warsaw's new leaders are the best hope for Poland and for detente in Europe. He hopes that economic aid from the West will enable the Poles to maintain at least a modicum of independence from the Soviets, and create conditions permitting the fragile concessions won by the workers to remain alive. It will be some time before Franco-Polish relations achieve the level of cordiality established under Gierek's regime, but Giscard [redacted]

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[redacted] has expressed a desire to visit Poland this month. His decision on whether to take the trip will turn upon the way events unfold in Poland. With the French presidential elections next spring drawing closer, Giscard is wary of being identified with a regime that may yet use force against its population. [redacted]

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Italy

Italian interest in the peaceful resolution of the Polish crisis is broadly based and the connection between economic assistance and disorder is perceived, but Italy's own uncertain economic situation will limit the amount of aid it can provide. Italy has strong historical ties with Poland; many Italians view the Poles as the most "culturally westernized" of the East Europeans. The key role of the Church in Polish life has been an important source of fellowship with confessional Italians--a feeling that has grown since the election of Pope John Paul II. Italian

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trade with Warsaw is second only to that of West Germany in Western Europe. Like other Europeans, the Italians still hope that gradual liberalization in Poland might influence favorably other Warsaw Pact countries and perhaps ultimately the Soviet Union itself. [REDACTED]

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Italy is under no illusions that western economic aid can correct structural imbalances in the ailing Polish economy. But Rome views such aid as a safety valve that could lessen internal Polish tension. Consequently, very early on the Italians were in the forefront of those Europeans calling for increased assistance to Poland. There appears to be a broad national consensus in favor of this approach--particularly in view of the new rapprochement that apparently is developing between the Forlani government and its principal opposition, the Communists. Although they are ready to censure Moscow and possibly break their special ties to the CPSU in the event of Soviet intervention, the Communists would nevertheless prefer to avoid the embarrassment that such Soviet action would entail. [REDACTED]

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Despite domestic political backing for aid to Poland, Italy--which is still without a comprehensive strategic plan for its own economy, probably would prefer to reschedule the repayment of credits already extended than offer new ones. Rome in any case will be forced to juggle its limited finances to accommodate the Poles and could be susceptible to the argument that cuts must be made in other areas--perhaps including defense. [REDACTED]

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UK

London has been wary about extending further assistance to Poland, but appeared to soften its position during Lord Carrington's recent visit to Warsaw. The foreign secretary told Polish leaders that Britain would look sympathetically on aid requests, but there are major economic and political constraints on any large amount of additional assistance. With the British economy deep in recession, the Thatcher government sees no alternative to severe fiscal restraint. Any additional government-backed loans to the Warsaw regime at a time when social programs in the UK are being cut could prove embarrassing to the Tory government. Similarly, Warsaw's request to ease important quotas for Polish goods in a period of rising protectionist sentiment could also be hard to manage. [REDACTED]

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Despite such misgivings, London is apparently prepared to allow the Poles some breathing space on the financial front. While not in a position to grant extensive new credits, the British see some form of debt relief as a realistic possibility. The final scope of British aid to Poland will probably reflect a compromise between the Foreign and Commonwealth Office--which emphasizes the potential political benefits of financial assistance--and the Treasury, concerned about limiting overseas loan liabilities and government expenditures. [REDACTED]

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The British will expect the United States and the FRG to take a leading role in providing loans to Poland. Although the British have expressed support for informal consultations between the major debt-holders on agreed steps to assist Warsaw, London worries that a meeting of Western creditors with the Poles could allow the Soviets to charge that the West is attempting to "split Poland from the Socialist camp." London will thus insist that any loan strategy be handled very carefully in order to avoid providing a convenient excuse for Soviet action.

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Attachment: Annex-Expressions of
Political Support for Aid

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<u>Creditor</u>	<u>Reschedule Request</u>	<u>New Credit Request</u>
US	Easing of terms on past CCC, Eximbank, PL-480 credits--about \$700 million due in 1981.	\$3 billion financial credit repayment 1985-90; \$100-200 million CCC; Eximbank credit line for raw materials.
West Germany	1-year deferment of \$26 million repayments due this month on \$530 million 1975 loan	\$290 million credit for chemical, steel, and other products, \$530 million long term, untied financial credit; both Hermes guaranteed. <u>Already approved: \$26 million remainder of raw material credit line, to be used for food</u>
France	All debt service due in 1981-83, rescheduled to 1985-90; \$425-475 million due in 1981. <u>Paris may approve about \$300 million</u>	\$300-500 million for new coal project; \$250-375 million in 5-year raw material credits.
Italy	\$1 billion in repayments and interest due 1981-83, to be repaid 1985-90; Italians calculate that only \$400-500 million is due then in 1981-82.	
UK	Some of the \$500 million owed in 1981-82.	5-year credit for raw materials
Austria	Request made--amount and other details unknown, but Austria's exposure is roughly as large as France's.	<u>Request for \$40 million for grain approved; Austria unwilling to provide more.</u>
Japan	No request on \$500 million in outstanding guaranteed credit line	Extension of \$450 million line set to expire end-1980 for raw materials on relaxed credit terms. <u>Does not fit with existing credit programs</u>
Norway	Request presented--details are not known	\$160 million/year for capital goods; \$40 million/year for raw materials on 5-year terms--up from 23 months
Canada	Informal approach to defer payments on \$170 million project loan and \$380 million wheat board credit	Long-term raw materials credit line
Belgium	Request apparently made; no details available	Request apparently made; no details available
Sweden		\$150 million for iron ore and other items.

ANNEX: Expressions of Political Support for Aid

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2. The European Parliament, unanimous except for French Communists, passed a resolution in September requesting the Commission and the governments to improve economic and financial cooperation with Poland. Austrian Chancellor Kreisky, during French Prime Minister Barre's September visit to Vienna, stated that all democratic countries are obliged to help Poland. Barre responded that "for our part, we are prepared to give Poland the aid which could enable it to tackle its problems in the difficult period it is experiencing." On a visit to Denmark last month Kreisky reaffirmed that "we must extend further credits to enable the government to fulfill its concessions to the workers."

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3.

A British paper submitted to a NATO economics meeting last month concluded that "unless the Polish leadership succeeds in acquiring substantial foreign help over the next few months...generally worsening economic conditions will lead to renewed domestic unrest, with no prospect of discontent being bought off again." (The paper also noted that there were no signs at present that Western lenders would cooperate to the extent needed.)

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